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SUBJECT: KENYA BULLISH ON EXTRACTIVE INDUSTRY TRANSPARENCY
INITIATIVE AS OIL EXPLORATION SET TO BEGIN

Ref: 05 Nairobi 4090

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Sensitive-but-unclassified. Not for release outside USG
channels.

¶1. (SBU) Summary: Deep-sea oil exploration is scheduled to
begin in late-2006 off the coast of Kenya. In preparation
for a possible discovery, key donors and the Australian
company in charge of exploration are encouraging the
Government of Kenya (GOK) to start planning now on how to
avoid the "resource curse." In particular, they are
advocating GOK commitment to the Extractive Industries
Transparency Initiative (EITI). The initial response from
key GOK policymakers and the state-owned oil company to
EITI participation is strongly positive. End summary.

Deep-Sea Drilling Coming Soon

¶2. (SBU) Reftel provides background to an oil exploration
project in "ultra-deep" water 80 miles off the coast of
Kenya being carried out by an Australian firm, Woodside
Energy (Kenya) Pty. Ltd. Econ/C attended a briefing on
April 12 organized by the UK's Department for International
Development (DFID). The meeting included Woodside Kenya
General Manager Alex Taylor, who briefed on the status of
Woodside's oil exploration project. Also attending were
several senior Government of Kenya (GOK) officials, the CEO
of the National Oil Company of Kenya (NOCK), the country
representatives of the IMF and the World Bank, and
bilateral donor countries (Australia, Norway, U.S.). The
briefing focused primarily on Kenya's voluntary
participation in the Extractive Industries Transparency
Initiative (EITI).

What is EITI?

¶3. (U) Launched at the World Summit for Sustainable
Development in 2002, EITI seeks to prevent the "resource
curse" -- i.e. overvalued currencies, corruption, conflict,
and poor citizen-state accountability -- that has plagued

many developing countries rich in resources, such as Nigeria and Angola. EITI does this by putting in place a reporting infrastructure that generates transparency and accountability in the receipt and use of revenues from extractive industries like oil and gas. For those Washington consumers unfamiliar with EITI and interested in more details, the "EITI Source Book" and other information are available at: www.eitransparency.org.

Drilling Deep for Oil in 2006

14. (SBU) The Woodside oil exploration project is moving forward, according to Taylor, who said Woodside is close to concluding a contract to hire a "fifth generation" deep sea drilling ship, of which there are only 18 in operation in the world. The ship will arrive in Kenyan waters and commence drilling in 2,000 meters of "ultra-deep" water in what he termed "severe oceanographic conditions" in the fourth quarter of CY-2006. The company has already invested \$20 million thus far in the project, and once completed, the first exploratory well will add another \$70-80 million to Woodside's investment - by far the largest single foreign investment in Kenya in years. And that's all before a single drop of oil flows.

15. (SBU) Woodside's project is high-risk, both from a technical and financial perspective, said Taylor, and key stakeholders need to start preparing now for both success and failure. If the exploratory wells are successful, he said, Woodside wants the Kenyan government to participate in EITI, in which the company participates in other countries. The meeting included a detailed briefing on EITI by DFID representatives, covering both principles and process.

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Government Reaction Strongly Positive

16. (SBU) GOK reaction to proposed participation in EITI was pleasantly and overwhelmingly positive. Referring to the "poison chalice" of natural resources and noting that "oil revenues are as clean as oil itself," the Legal Director of state-owned NOCK made a strong pitch for Kenya to sign on to EITI and to begin to establish the necessary systems and processes for implementation. NOCK CEO Mary Mukindia reported that her parent body, the Ministry of Energy (not present at the meeting), had already expressed its unequivocal support for joining EITI. It was then left to three key Permanent Secretaries present from the Ministries of Finance, Justice, and Environment to meet later the following week to begin working out modalities. All three, and in particular Finance PS Joseph Kinyua, were strongly supportive and spoke as if GOK participation in EITI was a given. Kenya Anti-Corruption Commission Director Aaron Ringera gave EITI a ringing endorsement, noting that its value was so self-evident that no self-respecting politician or bureaucrat would dare oppose it.

Next Step: Yup, Do A Study

17. (SBU) Meeting participants agreed to quickly finalize the terms of reference for a two-week "scoping study", ideally to take place no later than May, to help the GOK put together a work plan on implementing EITI. The World Bank Country Director suggested that the GOK use the occasion of the budget presentation, in early June, as a deadline for the GOK to publicly commit itself to EITI participation. Thereafter, the "set-up stage" of EITI

implementation could begin in earnest to ensure reporting mechanisms are in place before any oil begins flowing.

Comment

18. (SBU) The devil as always will be in the details of implementation, but the strong support shown by the GOK representatives for EITI is good news indeed. Even if Woodside doesn't strike oil at the end of the year, an EITI mechanism in Kenya would be useful in light of other developments in the natural resources sector, including a soon-to-open titanium mine, and increased interest in hydrocarbon exploration on the part of others, including Chinese firms. There is no indication yet what EITI implementation might cost, but it would appear DFID, the IMF, and/or the World Bank will be willing to assist with any capacity building needed to get the initiative off the ground.
Bellamy